



K# 314

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

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FACING PAGE Washington DC Information Required of Brokers and Dealers Pursuapp to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING	01/01/10	AND ENDING	12/31/10
<u> </u>	MM/DD/YY		MM/DD/YY
A. REGIS	TRANT IDENTIFICAT	TION	
NAME OF BROKER-DEALER: Lincoln Fir	ancial Distributors, Ir	ıc.	OFFICIAL USE ONLY
ADDRESS OF PRINCIPAL PLACE OF BUSIN	ESS: (Do not use P.O. Box N	No.)	FIRM I.D. NO.
Two Commerce Square, 2001 Ma	arket Street		
	(No. and Street)		
Philadelphia, Pennsylvania 1910	)3 		
(City)	(State)	(Zip	Code)
NAME AND TELEPHONE NUMBER OF PERS	ON TO CONTACT IN REG	ARD TO THIS REPOR	₹T (260) 455 6244
Keith J. Ryan		(Ar	(260) 455-6244 rea Code – Telephone Number
B. ACCOL	UNTANT IDENTIFICA	TION	·
INDEPENDENT PUBLIC ACCOUNTANT who	se opinion is contained in thi	s Report*	7.2
Ernst & Young LLP			
(Na	ime – if individual, state last, first.	middle name)	
Two Commerce Square, Suite 40	000, 2001 Market Stree	t Philadelphia,	PA 19103-7096
(Address)	(City)	(State)	(Zip Code)
CHECK ONE:			
Certified Public Accountant			
☐ Public Accountant			
☐ Accountant not resident in United	States or any of its possession	ons.	
F	OR OFFICIAL USE ONL	Y	

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)



#### OATH OR AFFIRMATION

I,	Keith J. Ryan	, swear (or affirm) that, to the best of
my	knowledge and belief the accompanying finance Lincoln Financial Distributors, In	cial statement and supporting schedules pertaining to the firm of
of	December 31	, 20 10 , are true and correct. I further swear (or affirm) that
	ther the company nor any partner, proprietor, p ssified solely as that of a customer, except as fo	rincipal officer or director has any proprietary interest in any account llows:
	RILYN K. ONDECKER, Notary Public	Keith Of Ryun Signature
	Resident of Allen County  My Commission Expires 1/18/2013	Vice President and Chief Financial Officer
X	Notary Public is report ** contains (check all applicable boxes  (a) Facing Page.	i):
X	<ul><li>(b) Statement of Financial Condition.</li><li>(c) Statement of Income (Loss).</li></ul>	
X	(d) Statement of Changes in Financial Condition	
	<ul><li>(e) Statement of Changes in Stockholders' Eq</li><li>(f) Statement of Changes in Liabilities Subore</li></ul>	
X	(g) Computation of Net Capital.	
X	<ul><li>(h) Computation for Determination of Reserve</li><li>(i) Information Relating to the Possession or</li></ul>	
	(j) A Reconciliation, including appropriate ex	planation of the Computation of Net Capital Under Rule 15c3-1 and the
		erve Requirements Under Exhibit A of Rule 15c3-3. unaudited Statements of Financial Condition with respect to methods of
<b>I</b> Z7	consolidation.	
<b>X</b> 0	<ul><li>(1) An Oath or Affirmation.</li><li>(m) A copy of the SIPC Supplemental Report.</li></ul>	
		ies found to exist or found to have existed since the date of the previous audit.

<sup>\*\*</sup>For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

# Financial Statements and Supplemental Information

Years Ended December 31, 2010 and 2009

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# Report of Independent Registered Public Accounting Firm

The Board of Directors Lincoln Financial Distributors, Inc.

We have audited the accompanying statements of financial condition of Lincoln Financial Distributors, Inc. (an indirect, wholly owned subsidiary of Lincoln National Corporation) (the Company) as of December 31, 2010 and 2009, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Financial Distributors, Inc. at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, and III is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

February 24, 2011

# Statements of Financial Condition

	December 31			r 31
		2010	2009	
Assets Cash and cash equivalents Interest receivable Amounts due from affiliated companies 12b-1 receivable Total assets	\$	8,928,077 606 243,474 14,295,888 23,468,045	\$	8,758,160 2,152 93,351 12,087,332 20,940,995
Liabilities and stockholder's equity Liabilities: Amounts due to affiliated companies Other liabilities Total liabilities	\$	14,286,908 678,967 14,965,875	\$	12,101,439 353,515 12,454,954
Stockholder's equity: Common stock, \$25 par value; 10,000 shares authorized; 8,000 shares issued and outstanding Additional paid-in capital Accumulated deficit Total stockholder's equity Total liabilities and stockholder's equity		200,000 12,632,000 (4,329,830) 8,502,170 23,468,045		200,000 12,632,000 (4,345,959) 8,486,041 20,940,995

# Statements of Income

	Year Ended	Year Ended December 31		
	2010	2009		
Revenues:				
Commission revenue	\$ 754,509,764	\$ 633,452,339		
Wholesaling revenue	137,645,898	143,479,895		
Dividend and interest income	11,081	19,002		
Total revenues	892,166,743	776,951,236		
Expenses:				
Selling expenses	754,509,764	633,452,339		
Wholesaling expense	137,645,898	143,479,895		
Total expenses	892,155,662	776,932,234		
Income before income taxes	11,081	19,002		
Federal income tax (benefit)	(5,048)	(1,775)		
Net income	\$ 16,129	\$ 20,777		

# Statements of Changes in Stockholder's Equity

	(	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
Balance at January 1, 2009 Net income	\$	200,000	\$ 12,632,000	\$ (4,366,736) 20,777	\$ 8,465,264 20,777
Balance at December 31, 2009 Net income		200,000	12,632,000	(4,345,959) <b>16,129</b>	8,486,041 <b>16,129</b>
Balance at December 31, 2010	\$	200,000	\$ 12,632,000	\$ (4,329,830)	\$ 8,502,170

# Statements of Cash Flows

		Year Ended	Dec	eember 31 2009
Operating activities			, -	
Net income	\$	16,129	\$	20,777
Adjustments to reconcile net income to net cash provided by				
(used in) operating activities:				
Interest receivable		1,546		109
Amounts due from affiliated companies		(150,123)		3,257,803
12b-1 receivable		(2,208,556)		(3,573,962)
Amounts due to affiliated companies		2,185,469		425,192
Other liabilities		325,452		(304,754)
Net cash provided by (used in) operating activities		169,917		(174,835)
Net increase (decrease) in cash and cash equivalents		169,917		(174,835)
Cash and cash equivalents at beginning of year		8,758,160		8,932,995
Cash and cash equivalents at end of year	\$	8,928,077	\$	8,758,160
Supplemental disclosure of cash flow information Income taxes paid	_\$_	791,190	\$	781,684

#### Notes to Financial Statements

December 31, 2010

#### 1. Organization and Operation

Lincoln Financial Distributors, Inc. (LFD or the Company) is a wholly owned subsidiary of The Lincoln National Life Insurance Company (LNL), which is a wholly owned subsidiary of Lincoln National Corporation (LNC).

LFD is engaged in the business of wholesaling and marketing financial services products, such as mutual funds, variable life insurance, and variable annuities through financial intermediaries, such as stock brokerage firms, banks, and independent insurance agencies, as a limited broker-dealer. LFD also receives commissions from affiliated insurance companies via intercompany transfers. LFD does not solicit or sell products directly to the general public.

The Company and other affiliated entities that provide services to the Company are under common ownership and management control. The existence of this control could result in the Company's operating results or financial position being significantly different from those that would have been obtained if the Company were autonomous.

#### 2. Significant Accounting Policies

#### **Basis of Presentation**

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles. These financial statements comply with the requirements of the Securities and Exchange Commission (SEC) pertaining to the Financial and Operational Combined Uniform Single (FOCUS) Report.

The preparation of LFD's financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

#### Cash and Cash Equivalents

Cash and cash equivalents, which include all highly liquid investments with a maturity of three months or less at the date of acquisition, are carried at cost, which approximates fair value.

## Notes to Financial Statements (continued)

#### 2. Significant Accounting Policies (continued)

#### **Investment and Insurance Product Revenues and Expenses**

LFD earns wholesaling revenue and incurs wholesaling expenses from the sale of variable life insurance and annuity products of LNL and Lincoln Life & Annuity Company of New York. LFD is the principal underwriter for the wholesale distribution of all "Lincoln Family" variable life and annuity products. As a result, LFD recognizes all commission revenue for the distribution of these products. These selling costs are then passed on to LNL who, through the processing and services agreements, pays the commissions on LFD's behalf. LFD also recognizes wholesaling revenue on 12b-1 fees received from separate account fund sponsors as compensation for marketing and distributing the underlying mutual funds. These 12b-1 fees are likewise passed on to LNL to offset wholesale distribution expenses provided on LFD's behalf. The 12b-1 fees received from separate account fund sponsors amounted to \$138,577,612 and \$108,858,182 in 2010 and 2009, respectively. These fees are included in wholesaling revenue to the extent wholesaling expense is incurred on the statements of income. All other commission and wholesaling revenue amounts are received from affiliates.

Delaware Distributors L.P. (DDLP), an affiliated company, was sold to an outside third party on January 4, 2010. From that point forward, LFD was no longer the principal underwriter of DDLP variable business. As a result, no wholesaling revenue or wholesaling selling expense has been recognized in 2010 related to DDLP. Prior to 2010, wholesaling revenue recognition on the sale of mutual fund and wrap products of DDLP was recognized in an amount equal to the wholesale selling expenses contractually allocated to LFD by DDLP. For the year ended December 31, 2009, wholesaling revenue and wholesaling expense on the sale of mutual fund and wrap products of DDLP amounted to \$31,615,836.

#### **Income Taxes**

LFD files consolidated federal income tax returns with LNL and LNC. Pursuant to an intercompany tax-sharing agreement with LNL, LFD provides for income taxes on a separate return basis. The tax-sharing agreement also provides that LFD will receive benefit for net operating losses, capital losses, and tax credits, which may not be usable on a separate return basis to the extent such items may be utilized in the consolidated federal income tax returns of LNC.

#### Notes to Financial Statements (continued)

#### 2. Significant Accounting Policies (continued)

#### **Dividends to Parent**

In accordance with Rule 15c3-1 of the Securities Exchange Act of 1934, LFD is required to maintain certain net capital requirements. Future dividends are restricted by net capital requirements. No dividends were declared for 2010 or 2009.

#### 3. Agreements and Transactions With Affiliates

Amounts due from affiliated companies primarily represent amounts due to LFD for the settlement of general and administrative expenses, as stipulated in the Master Services Agreement. Amounts due to affiliated companies primarily represent amounts due to LNL related to separate account 12b-1 fees as well as intercompany cost and tax-sharing agreements.

#### 4. Income Taxes

Federal income tax expense differs from the federal tax rate of 35% as a result of a permanent difference relating to tax goodwill from a previous acquisition. Current federal income tax (benefit) was \$(5,048) and \$(1,775) for 2010 and 2009, respectively. There was no deferred federal income tax asset or liability at December 31, 2010 or 2009. Current federal income tax receivable of \$4,398 and \$2,740 is included in amounts due from affiliated companies on the statements of financial condition as of December 31, 2010 and 2009, respectively.

The LNC consolidated group is currently under audit by the IRS for years 2007 and 2008.

#### 5. Contingencies

LFD is licensed to engage in broker-dealer and investment advisor activities and is currently a defendant in various cases relating to such activities. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. The ultimate outcome of these matters cannot presently be determined, and the amount of any liability cannot be reasonably estimated. Accordingly, no provision for any liability has been included in the financial statements. LFD intends to vigorously defend itself against these lawsuits.

After consultation with legal counsel and a review of available facts, it is management's opinion that these proceedings ultimately will be resolved without materially affecting LFD's financial position.

## Notes to Financial Statements (continued)

#### 6. Net Capital Requirements and Reserve Information

As a registered broker-dealer, LFD has elected to operate under the alternative standard provisions of the SEC Uniform Net Capital Rule that requires minimum net capital of \$250,000. At December 31, 2010, LFD had net capital of \$7,987,759, which was \$7,737,759 in excess of its required net capital of \$250,000.

The operations of LFD do not normally include the physical handling of securities or the maintenance of open customer accounts. Accordingly, there are no reserve provisions pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 at December 31, 2010 or 2009.

#### 7. Subsequent Events

We have evaluated subsequent events through February 24, 2011, the date at which our financial statements were available to be issued, and determined that there were no matters required to be disclosed.

Supplemental Information

## Schedule I

# Computation of Net Capital Under SEC Rule 15c3-1 of the Securities and Exchange Commission

## December 31, 2010

Net capital	
Total stockholder's equity	\$ 8,502,170
Deduct total non-allowable assets and other deductions	(513,474)
Tentative net capital	7,988,696
Haircuts on securities	(937)
Net capital adjustment	
Net capital	\$ 7,987,759
Minimum net capital requirement	\$ 250,000
Excess net capital	\$ 7,737,759
Excess net capital at 120% of minimum net capital	\$ 7,687,759

There are no differences between the net capital computation included above and LFD's unaudited FOCUS Part IIA filing as of December 31, 2010.

## Schedule II

# Statement Relating to Certain Determinations Required Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2010

### Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3:

#### **Exemptive Provisions**

26.	If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only):  A. (k)(1) – Limited business (mutual funds and/or variable annuities only)	X
	B. (k)(2)(i) – "Special Account for the Exclusive Benefit of Customers" maintained	
	C. (k)(2)(ii) – All customer transactions cleared through another broker-dealer on a fully disclosed basis.	
	D. (k)(3) – Exempted by order of the Commission	

## Schedule III

# Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

## December 31, 2010

Credit balances Free credit and other credit balances Total credit items	\$  
Debit balances Secured customer debit balances	\$ _
Less 1% Total debit items	\$ 
Excess of total credits over total debits	\$ 
Required deposit	\$ 

There are no differences between the reserve requirement computation included above and LFD's unaudited FOCUS Part IIA filing as of December 31, 2010.

## Schedule IV

# Information Relating to Possession or Control Requirements Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2010

٨	Aarket	valuation	and num	her of	`items
ΤA	iainci	varuation	and mann		1001113

1.	Customers' fully paid securities and excess margin securities not in LFD's possession or control as of December 31, 2010 (for which instructions to reduce to possession or control has been issued), but for which the required action was not taken by LFD within the time frames specified under Rule 15c3-3.	\$ 
	A. Number of items.	 
2.	Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2010, excluding items arising from "temporary lags that result from normal business operations" as permitted under Rule 15c3-3.	\$ 
	A. Number of items.	_

Supplementary Report



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# Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5(g)(1)

The Board of Directors Lincoln Financial Distributors, Inc.

In planning and performing our audit of the financial statements of Lincoln Financial Distributors, Inc. (LFD) as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control), as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LFD's internal control. Accordingly, we do not express an opinion on the effectiveness of LFD's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by LFD, including consideration of control activities for safeguarding securities. The study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because LFD does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by LFD in any of the following:

- Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
- Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of LFD is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's abovementioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which LFD has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly



to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that LFD's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

February 24, 2011

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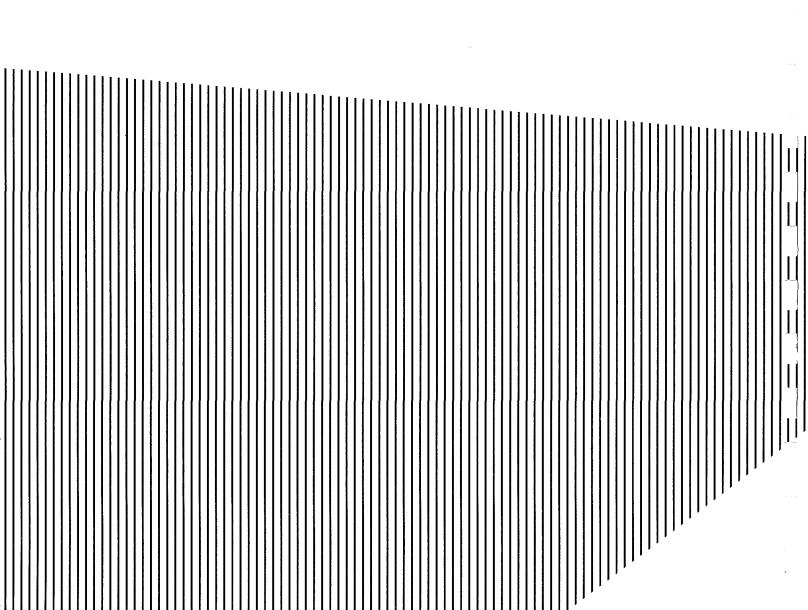
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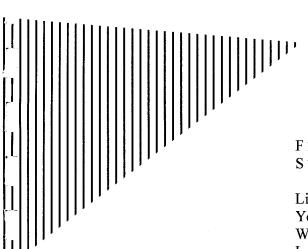
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FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Lincoln Financial Distributors, Inc. Years Ended December 31, 2010 and 2009 With Report and Supplementary Report of Independent Registered Public Accounting Firm

Ernst & Young LLP